MEDIATING INTELLECTUAL PROPERTY DISPUTES

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INTRODUCTION

It has long been the fact that most lawsuits settle before trial. The added truth that most judges and juries are unfamiliar with technology and its peculiar business practices makes intellectual property cases poor subjects for trial but excellent candidates for mediation. Mediation conducted prior to filing litigation, or immediately after a lawsuit has been filed but before expensive discovery is attempted has the highest probability of settling.

A little over twenty-five years ago patent disputes were exclusively resolved by litigation. Courts did not hear many cases until the parties had suffered serious, sometimes irreparable losses, however, because of time to trial caused by backlogs. Today most courts actively encourage and others require the use of some form of alternative dispute resolution, ("ADR") to resolve disputes.

With reduced budgets and constant delay, courts are still staggering under the weight of their caseloads and looking for ways to meet their obligations. The growing need to service litigants has resulted in experimentation and customization of ADR processes. These new processes are hybrids of the three basic ADR models: negotiation, mediation and arbitration. Negotiation involves only the disputing parties; mediation involves a non-decision maker or facilitator; while arbitration involves a decision- maker.

ADR PROCESSES

Most intellectual property disputes resolve naturally, through negotiation between the parties. This is business as usual. When the problem grows to a size that blocks or blurs the parties' solution visibility, it is time for mediation. Most cases settle using mediation, and on those rare occasions where settlement does not occur, arbitration remains an option. Mediation, however, has proven to be the most effective and efficient of these three ADR processes.

In many intellectual property cases the parties desire an ongoing business relationship. Examples are licensing, strategic partnering and cooperation in patent prosecution. Instead of slugging it out in court or the press, parties can benefit by engaging a mediator, who will provide an environment conducive to resolution. "Often, parties who would not settle on their own come to a resolution because a neutral person, uninvolved emotionally, manages the process."[1] A good mediator knows how to promote communication and break impasse.

Conflict causes internal emotion in the coolest customer, resulting in missed signs suggesting possibilities for settlement. The mediator, however, will recognize these signals, and

[1] Yeend, Nancy Neal and Rincon, Cathy E. *ADR and Intellectual Property: Prudent Option*, IDEA, the Journal of Law and Technology, 1996.

in a secure environment, will explore the suggestion with the receiving party's representative. Such a safe place is in "caucus", a private meeting, where the mediator asks direct questions and explores solutions that would be impossible or inflammatory in the joint session.

In litigation the judge assigned to the case is a throw of the dice. This is a big risk to the parties, not to mention the risk of the composition of the jury. In complex cases, attorneys complain of lack of understanding of the subject matter on the part of the judge and jury. On the other hand, parties choose their own mediator by reviewing his or her credentials and evaluating the training and experience of the mediators with similar cases.

COST, CONFIDENTIALITY AND CONTROL

Other considerations at the beginning of the process are cost and availability of the mediator. In addition, mediators' styles vary greatly— some are skilled at empowering the parties to develop their own creative and meaningful solutions, while others are directive and generally operate with little face-to-face negotiation between the parties.

Although mediation skills are transferable, few mediators understand the technology and the timing issues associated with disputes involving intellectual property. In response to this reality the co-mediation model has evolved, in which a second mediator joins the process to bring special expertise or to compliment the special expertise of the other mediator. Parties have found that in certain cases the dual effort proves to be more efficient. The hourly rate is higher, sometimes double for co-mediation, however, the benefit is that the process often takes less time, and has a greater chance of settlement, thus resulting in lower total cost to the parties. This is important when opportunity costs and litigation expenses are factored.

Historically, most forms of ADR were faster and more cost effective than litigation, but now mediation is the one process that consistently is more cost effective and produces higher settlement rates. This is due to the fact that in intellectual property disputes, the most significant benefits of mediation are conserving resources, confidentiality, tailoring the process, and controlling the outcome.

The cost of litigating complex intellectual property cases, especially patent infringement cases, can be particularly damaging to a young business. Litigation costs related to attorneys' fees alone often exceed $1,000,000 according to a review of decisions on patent damages. In addition, crowded court dockets mean delay compounded by extensive and expensive discovery needed to uncover the facts. In the case of infringement disputes, "the longer an infringing competitor's product remains on the market, the greater the potential impact to the client's profits.[2]

Perhaps the most attractive and distinguishing aspect of mediation is its element of confidentiality, critical to cases involving trade secrets, where a disclosure outside a protected environment (a confidentiality agreement) can be deemed a publication of the trade secret to the world. Other circumstances benefiting from the umbrella of confidentiality are persons and corporations wishing to avoid negative publicity.

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[2]. Ibid

Another important product of mediation's flexibility is that unlike the rigid rules set forth in the Code of Civil Procedure and local court rules, mediation can be customized to meet the unique needs of the parties. Today it is tantamount to malpractice if attorneys do not include or offer mediation clauses in contracts they negotiate for their clients. The California courts have begun to enforce mediation clauses by disallowing recovery of attorneys' fees and costs to a party refusing mediation, even if they would otherwise be entitled to such recovery. For an excellent review of this development see *Frei v. Davey* (2004) 124 Cal.App.4th 1506. If a clause is not in included for any reason, attorneys are wise to discuss the merits of ADR with the client and require a written rejection of inclusion of an ADR clause in the document under discussion.

The American Bar Association Model Rules of Professional Responsibility require counsel to explain the cost and probabilities in a lawsuit to permit the client to make informed decisions regarding the representation. As mentioned above, there is a strong argument that this rule requires counsel to explain available ADR processes to a client. In most cases, when the client understands that he or she remains in control of the outcome in mediation, they opt to try mediation before any other step is taken on the long litigation path.

NON-RESOLUTION BENEFITS OF MEDIATION.

There are other benefits of mediation beyond confidentiality including lower cost, faster calendaring, control of the outcome and flexibility. For example, even where final resolution is not possible, issues such as discovery, venue, and timing can be negotiated and outlined in a mediation agreement thereby streamlining the issues to be litigated. All such agreements entered into during mediation are enforceable in a court of law.

Successful mediations allow parties to get back to business. Most attorneys and parties emerging from mediation praise the flexibility of the process for customizing solutions. The parties rarely describe litigation as a "satisfying process". Another fact to consider is enforcement. When parties' interests are satisfied, they are more likely to honor agreements. Parties are far more likely to appeal a litigated case than to reopen one settled in mediation. It has been said that a dispute is a problem to be solved, not a contest to be won. Mediation lends itself to this interpretation.

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